Balanced Scorecard And Its Importance

The BSC (Balanced Score Card) is the combined work of David Norton and Robert Kaplan whose collective effort gave rise to this organizational management tool as we know it today (Tiggelaar et al., 2011). The year 1990 saw Norton and Kaplan conduct extensive research into a number of companies which was aimed at coming up with significantly new approaches to performance management (Atkinson et al., 2011). The study was fuelled by the fact that financial processes used to analyze performance back then were not well developed for use in an ever changing business environment. Participants in the research, which includes members from companies under study, were of the opinion that using financial process as performance indicators affected organizational ability to enhance value (Tiggelaar et al., 2011). As a result, these research team evaluated several possibilities which brought them to the idea of developing balanced score cards. This approach would feature performance indicators most of which captured elements such as consumer issues, process within a business, workforce activity as well as the concerns of stakeholders (Tiggelaar et al., 2011). One company, Analog Devices, helped described approaches to measurement of progress rates in encouraging continuity of organizational activities. Analog Devices, prior to establishment of BSC, had what it termed an organizational score card which contained measures of performance which related to consumer delivery cycles, quality as well as manufacturing cycles used in industrial processes and efficacy of emerging products and their development (Tiggelaar et al., 2011).

Art Schneiderman, who was vice president at Analog, gave a brief presentation highlighting his organization's history of use of scorecards which led researchers to focus on Analog's scorecard as a basis for realizing their set objectives. Discussions gave rise to what we now know as the balanced score card as it brought on board four new distinct elements; consumer, financial, internal as well as innovation coupled with learning (Jayashree & Hussain, 2011). The name balanced score card reflected a balance between long term and short term goals. It also showed the distinction between nonfinancial and financial measures, prominent and lagging indicators, internal and external performance measures. A number of organizations went farther and established prototypes giving feedback to the research team relating to barriers encountered, acceptability as well as opportunities presented within organizations that may adopt the use of BSCs. Norton and Kaplan formulated balanced score card to start with, which was later compressed to match the concept of BSC (Jayashree & Hussain, 2011).

Balanced score cards have gained prominence in various organizations over the years. They have been transformed and implemented within nonprofit as well as the public sector. There have been success stories over the years which have accumulated giving an indication that the BSC is indeed beneficial to organizations (Jayashree & Hussain, 2011). Norton and Kaplan fashioned the BSC in a manner that would allow businesses to cope with every needs of stakeholders and also help translate plans into accomplishments. Potential stakeholders of relevance include shareholders, employees and consumers (Kaplan, 2003). The needs of these important elements of any given organization have been incorporated within the BSC's fundamental organizational management of several companies' perspectives (Kaplan, 2003). Based on a research by Kurtzman in 1997, about 64% of companies and organizations had implemented a means to evaluate performance based on perspectives that were similar in bearing to those found within balanced score cards (Kaplan, 2003). As a result of their effectiveness in assessing organizational effectiveness, BSCs have been widely adopted within the military, government bodies, businesses, corporations, schools and nonprofit bodies and organizations in general. Based on recent surveys, this performance assessment tool has received worldwide use and is currently very popular as a performance frame for managing organizations. There are numerous examples of BSCs obtainable via internet searches (Kaplan, 2003).

Unfortunately, each one is unique to a particular organization since a substantial part of BSCs originates from organizational design processes. It is prudent to state that most failures experienced within many organizations during the initial days of BSCs are attributable to their specificity (Kaplan, 2003). Early BSCs were often the work of organizational consultants. Since BSC's upswing to eminence, in the 1990s, most organizations have formulated alternatives to Norton and Kaplan's four box version (Kaplan, 2003).

The 1990s saw inception of a new methodology to concepts relating to organizational performance. This approach is what is known as Balanced score card which marked a crucial turn-off point in relation to performance assessment and management. The BSC is widely accepted as the tool of choice in accounting management (Kaplan & Norton, 2006). This tool proposed treatment of nonfinancial performance on the basis of financial assessment and performance in order to offer institutions a multi-dimensional approach to performance assessment (Kaplan & Norton, 2006). The BSCs are tailored to consider values associated with intangible products and assets in the same manner as that of tangible goods and assets in order to enable an organization achieve its goals. The use of BSCs enables organizational strategies to be implemented by various other institutions in order to guarantee the organization's internal reliability. The BSC is mainly conceptual and helps in translating organizational goals into a number of performance gauges inherent within four unique perspectives. The BSC consists of a financial viewpoint which is different in various organizations (Kaplan & Norton, 2006). The private segment makes use of objectives which represent long term goals, within a profit making approach, since they work within commercial environments. Public organizations work with financial deliberations whose role is either constraining or enabling. The consumer perspective represents organizational ability to offer top quality services, delivery effectiveness as well as consumer satisfaction (Kaplan & Norton, 2006).

BSCs come with a number of advantages which is why their popularity has risen over the years. Organizations have benefited immensely form the use of BSCs in managing their performance in general. Research shows that organizations that make use of balanced score card have been able to enhance their performance (Hicks & Moseley, 2011). BSCs encourage structural alignment of the organization which allows creation of collective as well as individual responsibility. Development of strategy oriented organizations through use of cross functioning team members who have ownership of management systems helps establish multi-level and aligned organizations (Kaplan & Norton, 2006). BSCs help improve communication as well as transparency within an organization. Creation and inception of balanced score cards is transformational which helps encourage management change efforts necessary to build workforce buy-in. use of BSCS helps organizations establish calculated priorities (Kaplan & Norton, 1996). Thus, development of prioritized frameworks for the purpose of establishing initiatives helps organizations to even the corporate playing field, particularly when budget requisitions and implementing crucial choices. The BSC approach ensures that organizations take on a data-focused assessment during decision-making processes (Kaplan & Norton, 2006).

Performance information is well situated to inform the process of decision-making and therefore, use of BSCs assists organizations to focus on important aspects of the performance assessment (Kaplan & Norton, 2001). BSCs have been linked to improved credit score as well as supplementary governmental benefits.

Incorporation of BSC allows an organization to involve the community which also encourages dialogue (Kaplan & Norton, 2006). Community meetings which are mainly informed through the help of performance assessment tools, service levels and needs helps an institution establish service and program priorities. Research shows that BSCs encourage organizations and business to develop service and program effectiveness (Kaplan & Norton, 2006). Business shift their mentality form outputs and effort to more substantial approaches that allow development of product, programs and services that are cost effective in nature.

Balance score cards are not without limitations. Indeed researchers have found several limitations of BSCS are tools for assessing management performance within organizations. For instance, BSCs do not incorporate the needs of all stakeholders (Soderberg et al., 2011). These stakeholders include powers that be and suppliers who may be influential within many businesses and organizations (Soderberg et al., 2011). The assumption that a well trained workforce help build stronger enterprises which creates better consumer satisfaction as well as satisfied stakeholders does not hold true since it is merely an oversimplification of veracity as we know it (Soderberg et al., 2011). Flaws in cause and effect process are crucial as unsound assumptions which are input into control systems alongside improper information are most likely to lead to expectation of incorrect results on performance pointers which is likely to result in a dysfunctional institution and poor performance (Sawalqa et al., 2011). BSCs have been found to lead to improper assumptions in relation to causal relations between pointers of performance. These incorrect assumptions have been known to cause an organization to be dysfunctional creating undesirable consequences in relation to organizational output (Soderberg et al., 2011). In addition, BSCs do not offer means with which to sustain relevance of measures that were defines initially. This has led to insufficient focus on human resource as a dimension of any given organization.

BSCs have serious flaws in terms of construction. When they came into practice, they mostly diverted management’s focus on pre-defined gauges which were not able to offer responses to trivial prompts for instance what competitor were engaged in (Soderberg et al., 2011). therefore, BSCs fall sort when it comes to assessment of completion and developments in technology (Olve & Sjo?Strand, 2002). This arises due to organizational tendencies to submerge themselves in tasks relating to generation of indicators while giving less time to strategy definition creating indicators which do not have alignment to organizational goals. As a result, it is not easy for organizations to accomplish a balance between nonfinancial as well as financial processes (Kettunen, 2011). Therefore there have been challenge regarding study of result generated BSCs application due to lack of consensus in terms of the BSC approach in general. It is not clear to all organizations what use of BSC encompasses (Soderberg et al., 2011).

Based on limitations inherent within the balance score card, there have been a number of criticisms directed towards applicability of balance score cards in general. Several of these negative views stem from academia, whose main argument is that BSC have an unnecessary empirical nature (Kettunen, 2011). In addition, academics note the absence of citations within publications done by Norton and Kaplan relating to use of balanced score cards in general. Most of the critics have laid their focus mainly on inherent flaws, mostly of a technical nature, while others disproved initial design of BSCs. Critics have pointed out that BSCs do not offer unified assessments coupled with elaborate assessments: they argue that BSCs are mainly a collection of yardsticks (Soderberg et al., 2011). In addition, research has been done to help explicate differences in PMS size in context of cause as well as effect. It was found that BSCs are not suitable for use in the context of SMEs since they lack a focus on long term strategies. Furthermore, inherent character of a number of SMEs renders PM simulations inappropriate (Soderberg et al., 2011). However, this argument is not well developed as it fails to consider causality. Other researchers have evaluated failed BSCs implementation within SMEs. Failure occurred as a result of various changes in terms of organizational strategy (Kettunen, 2011).

The BSC was unveiled during 1990s and its origin is attributes to the need for organizations to find better means with which to undertake performance assessments. This tool has had widespread acceptability within the corporate word with subsequent development of organizations specific BSCs. This widespread adoption has led to emergence of variants tailored specifically for the needs of a specific organization. BSCs come with significant advantages. Use of balanced score card has been able to enhance organizational profitability and performance in general. However, BSCs have a number of limitations as well. BSCs do not incorporate the needs of all stakeholders and BSCs have been found to lead to improper assumptions in relation to causal relations between pointers of performance.